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Use of military payment certificates : an evaluation.

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USE OF MILITARY PAYMENT CERTIFICATES;
AN EVALUATION

by

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AN EVALUATION

by

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TABLE OF CONTENTS

LIST OF TABLES

CHAPTER I

INTRODUCTION

The Problem of Wartime Currency Control

The requirement for effective management of the total resources available for successful accomplishment of any given task is an accepted fact of our time. Indeed, considerable effort is devoted to the continual refinement in methods of management and to increasing the sophistication of those who would aspire to positions of leadership in the field of management. However, the universal excellence of management that can be taken for granted today was apparently not so universal and not so excellent just over twenty-five years ago in the special field of wartime currency control.

During and immediately following World War II, local currency was used wherever possible as the medium of exchange for the United States and Allied Forces in occupation areas. Where this was not feasible, spearhead, supplemental or military currencies were used. Under these procedures, special administrative regulations, including currency control books, were employed with minimal success in reducing the impact of Allied occupation forces' spending on local economies.

Mindful of the need to maintain or restore economic order in war-torn areas, to isolate Allied military personnel from illegal markets, and to preclude the accumulation of local currencies in official accounts, the Supreme Headquarters Allied Powers, Europe, and the War Department initiated the Military Payment Certificate system in September, 1946.

The accumulation of local currencies in official accounts, primarily by United States personnel in Germany, was done through black market operations. The Americans in occupied Germany found themselves in a very enviable position of being monopolistic suppliers of the luxuries of life to a war ravaged population. The British had very little to sell; the French had nothing. The Americans had the Post Exchanges and commissaries with their unlimited stock to use in making great profits in the black market.

For the American black market to be successful there had to be two other elements--customers with plenty of cash, and the opportunity to convert profits into American dollars and other valuable assets. Both elements were available in the United States zone of Germany and in the City of Berlin which was jointly controlled by the four allies.

Black market customers were Russians, Germans and the great masses of displaced persons. The Russians wanted mainly whiskey, watches and cameras; the Germans and the refugees wanted food and cigarettes. All of these people had money in quantity, especially the Russians who were supplied ample amounts of the

Allied occupation currency, the Allied Military Mark, by their own authorities.[1]

For some time after the end of the war, there was no restraint on the black market activities of United States personnel in Germany. However, these activities and the attendant profits attracted attention and the need for corrective action was seen, especially since the drain on the Army's financial resources became a serious and rapidly growing deficit. It became apparent that this deficit was caused by the black marketers. As the black market profits remitted to the United States exceeded the amount of money appropriated by Congress for pay and allowances, the excess remittances were paid out of the United States Treasury at the expense of the American taxpayer. Since the War Department was finally accountable to Congress, the need for immediate corrective action to ward off a potential political explosion was obvious.[2]

Therefore, the rapid accumulation of local currencies in official accounts was one reason to seek a more successful method of currency control.

An additional fact to be considered at the close of the Second World War was the strength of the United States dollar in comparison to other currencies of the world. The appearance of dollars in large quantities circulating freely would have

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[1]Vladimir Petrov, Money and Conquest (Baltimore: The Johns Hopkins Press, 1967), p. 205.

[2]Ibid.

undesirable effects during this period.

In the Second World War the Armed Services, in their conduct of the war, had occasion to handle a total of $11 billion in foreign exchange transactions. The result of these transactions resulted in the accumulation of $380 million in excess of the dollars appropriated for the various purposes by Congress. Of this amount, $250 million were in German marks, $75 million were in Japanese yen, and the balance in various currencies.[1]

At present, Military Payment Certificates are used in overseas areas where the use of American dollars is not considered advisable by the United States or where the host government will not permit the use of American dollars by United States forces in the area for a number of reasons, including the fear of the impact on their economies of freely circulating American dollars.

It is also toward the avoidance of repeating previous errors in currency control that this thesis is directed. There were several attempts made and several devices used by the United States to develop a satisfactory method of currency control during and after World War II.

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[1]U. S., Congress, Senate, Committee on Appropriations, Armed Services and Banking and Currency, Occupation Currency Transactions, Hearings before the Committee on Appropriations, Armed Services, and Banking and Currency, Senate, 80th Cong., 1st sess., 1947, p. 3.

The Purpose of This Thesis

In light of the foregoing, the principal endeavor of this paper will be to establish a basis whereby it can be determined if use by the United States of Military Payment Certificates to provide a measure of currency control during and after World War II achieved the results desired by those who prescribed their use.

Additionally, this thesis will seek to set forth the results originally desired by the use of Military Payment Certificates and to provide an indication as to the value of their continued use in the world of today.

Further, this thesis will seek to provide an indication of the consequences of completely eliminating the use of Military Payment Certificates or of at least restricting their use to combat zones as they occur in time to come as well as the gold flow implications of either course of action by the United States in the conduct of future combat operations.

The use of Military Payment Certificates at present occurs in only four countries. They are, for the most part, widely separated geographically as well as politically. The four countries are Lybia, Japan, South Korea and South Viet Nam.

The Scope of Research

In order to facilitate the formulation of logical and accurate conclusions concerning the value in past, present and future use of Military Payment Certificates, research in this area will be made of available military and financial histories,

personal interviews, and government documents and periodicals.

The writer has had first-hand experience in actual handling of Military Payment Certificates in Japan and South Viet Nam while on active duty in the United States Navy as a shipboard disbursing officer. The experience has been of a continuing nature since 1955.

CHAPTER II

BACKGROUND OF MILITARY PAYMENT CERTIFICATES

Effective and efficient management of available resources, men, money and materials, is of paramount importance to the economic well-being of any company, industry or country. While this is axiomatic and is the subject of considerable attention during normal times or under controlled conditions, it assumes a position of primary importance in wartime and is vital to the survival of a country during wartime. Successful currency control in wartime has come to be most important, but this was not always the case as recently as twenty-five years ago. At this time the United States had had very little experience in currency control problems of the magnitude that were to be faced in the final years of World War II and during the subsequent years of postwar reconstruction in which the United States would play so large a part.

The Necessity for Currency Control and Historical Precedents

The provision for effective currency control in those areas occupied or liberated, as the case may be, is of utmost importance to the continuing success of the occupying or liberating forces. Lack of effective control and coordination

between military and civil authorities may have a deleterious effect on plans for currency conversion designed to impede inflation, to correct budget deficiencies and to confiscate hoards of money of questionable legality in the hands of the indigenous population which may have been acquired by collaboration with the enemy or through black market operations.[1] It is to be recalled at this point that black market operations in the closing years of World War II and the immediately subsequent postwar years were regarded as especially harmful to the local economy in much the same manner as excess inflation is regarded as a menace today.

The black market operations in Germany would grow after the end of the war and huge profits would be made. This, coupled with the remittance privileges of United States personnel in Germany, would eventually lead to a serious drain on the United States Treasury and corrective action would become necessary. This was later to be seen as a major problem facing the United States in the postwar years.

The practice of issuing occupation currency and the counterfeiting of enemy currency has, as such, had many precedents in history. In fact, a variety of currency devices have been used in support of military operations over the centuries. In about 1122, during the siege of Tyre, Doge Micheli paid his troops in leather money, promising redemption in regular

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[1]Frank A. Southard, Jr., <u>The Finances of European Liberation</u> (New York: King's Crown Press, 1946), p. 12.

currency upon the return to Venice of his army. The British resorted to the counterfeiting of enemy currency during the American Revolution. This is rendered somewhat humorous by the fact that the American Continental Congress issued currency of its own prior to the issuance of the Declaration of Independence. This actually could have been considered occupation currency, depending upon the point of view of the observer. General William T. Sherman of the Union Army is said to have resorted to the ungentlemanly act of counterfeiting the currency of the South during his march through Georgia toward the sea. Napoleon likewise resorted to the counterfeiting of enemy currency during his Austrian and Russian campaigns. Frederick the Great even went so far as to capture enemy dies from which he had made and issued degraded coins. The French finished the printing of some Reichsbank notes in process and subsequently issued them when they occupied the Ruhr in 1923.

During the Seven Weeks War between Prussia and Austria, Bavaria, Saxony, Hanover and certain minor German states in 1866, receipts for requisitioned goods were commonly used as legal tender; a similar practice was used by the Germans during the Franco-Prussian War of 1870-1871. The British went still a bit further and made receipts against such material readily negotiable during the Boer War of 1899-1902. During the Russo-Japanese War of 1905, the Japanese issued special occupation currency in Korea and Manchuria. The wide-spread acceptability of this currency in those areas was brought about by the

Japanese encouragement of local Chinese civil authorities. The Germans and the Austrians issued occupation currency during the First World War, as did the British in their occupation of Archangel during and after the same war.[1]

Currency Control in the Second World War by Germany

Relative to the mechanics of currency control, there need be no substantial difference between liberated and enemy areas in regard to the currency arrangements which the invading forces may be able to make. In either case, liberating allied territory or occupying enemy territory, the object is the same--that is, to ensure the availability of the currency and the credit required by the invading forces. In all cases it is most desirable to obtain ready access to the treasury or the central bank of the territory involved and to secure through agreement with allies, or through force in occupied territory, the desired currency and credit resources for use by the invading forces.[2]

The German authorities, in their typical thoroughness and attention to detail, anticipated the problem of currency control in the areas to be occupied by their forces at the outset of their various geographical endeavors. They took the necessary action to facilitate the orderly acquisition of the

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[1]U. S., Congress, Senate, Occupation Currency Transactions, Hearings, pp. 76-77.

[2]Southard, Liberation, p. 12.

required amounts of currency and credit required to support their forces.

The Germans successfully used a variety of occupation currencies in the Second World War and used them on a large scale. Upon entering an area the currency initially used by the Germans in most instances was the Reichskreditkasse mark, a paper currency printed in German and denominated in German monetary units. This currency circulated concurrently with the local currency at German decreed rates of exchange. Both currencies had the status of legal tender at the time of the decree.

The German Reichskreditkasse mark, however, was not legal tender within Germany. Its use was usually a temporary measure and as local conditions permitted, the Reichskreditkasse mark was withdrawn in favor of a type of currency which was more familiar, and hence more acceptable, to the local population. In some instances, as in Denmark and France, the currency used was genuine local currency issued by the preoccupation government and reissued by the Nazi-dominated government of the occupied territory. In other instances, a local currency identical to the preoccupation currency but reproduced by a Quisling government was used under direction of the German occupation authority. In still other instances a new currency denominated in preoccupation units was issued and used or an entirely new local currency denominated in terms of a new unit was issued and used.

In those areas actually incorporated into the Reich, the regular German currency of the day replaced both the Reichskreditkasse and the local currency.[1]

The Germans were better able to implement their various credit and currency control efforts than the Allies were due to their good fortune in securing early control over the capital cities of the nations which fell victim to the advancing German armies. This was the case in the German occupation of such countries as Norway, Belgium, the Netherlands, France and Denmark. And, having gained control of the central bank or treasury of those countries, the Germans were better able to take prompt action to replace whatever spearhead or provisional currencies that they had issued with a currency that was more familiar and acceptable to the local populations.[2]

Early Allied Experiences

The Allies were not so fortunate as the Germans had been in this respect. Access to Rome and Berlin did not prove to be a simple matter and this tended to complicate matters over the long term. However, there was a practical difference between liberated allied areas and occupied enemy areas from the point of view of the Allies. The Allies could be reasonably sure, based upon experiences in North Africa and in Sicily, that the retreating Germans would adopt currency policies intended to

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[1]U. S., Congress, Senate, Occupation Currency Transactions, Hearings, p. 77.

[2]Southard, Liberation, p. 12.

disrupt local affairs and to impede the advance of the Allies. To further compound the difficulties of maintaining law and order on the part of the Allies, the retreating Germans used what appeared to be opposite actions in Tunisia and Sicily. In the former area, the Germans circulated large and excessive quantities of Bank of France notes, increased several times over the wage rates to certain classes of employees, patronized the local black market openly and freely and paid collaborationists handsomely.[1] In short, the Germans created an inflationary situation for the Allies to cope with. It was necessary for the restored authority, the French-African Government, to call in the notes more or less dumped by the Germans against a limited exchange for Bank of Algiers notes. This action enabled the government to have an administrative device with which to scrutinize questionable profits in the hands of possible collaborators and black market operators and to counteract the inflationary conditions created by the Germans.[2]

At the other extreme in Sicily, the Germans provided an equally unmanageable situation by completely opposite tactics. There, for some months prior to the Allied invasion and occupation, local Italian currency had become progressively more scarce. This was a deliberate and intentional government policy planned to reduce to an absolute minimum the volume of currency.

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[1] U. S., Congress, Senate, Occupation Currency Transactions, Hearings, p. 81.

[2] Ibid.

This was successful to the extent that even ordinary commercial activities became almost impossible. Local banks were ordered by Mussolini to destroy by burning on hand stocks of currency prior to the arrival of Allied troops.[1] While the order was not completely executed, the intended damage was done to the Allied cause and the Germans were successful in their efforts to create maximum dissention in areas that they were forced to evacuate.

While the Germans were successful at first glance in creating chaos in their wake, so too were the Allies equally successful and resourceful in employing effective countermeasures to neutralize the efforts of the Germans. In Tunisia, the availability of Bank of Algiers notes provided a medium with which to stabilize the situation. These notes were readily acceptable locally. In Sicily, the feasibility of the use of Allied Military Currency was demonstrated and its fortunate availability provided the solution to the problem at hand.[2]

Therefore, based on these experiences the Allies could and did ultimately make maximum use of the advantages afforded them by the existence of numerous recognized Governments-in-Exile.

Among the advantages available to both the Allies and the various governments-in-exile afforded by their cooperation in currency control matters were the reduction of confusion as to the responsibility for the issue of the currency, for overall

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[1] _Ibid._

[2] _Ibid._, p. 82.

policy related to the currency and for ultimate control of the currency.[1] The central government assumes full responsibility for these aspects and this is known by the local population.

Types of Currency Used

So far the facts collected herein have shown that in practice the use of wartime or occupation currency is in complete accord with historical precedent. Indeed, its use is vital to the successful prosecution of the war effort and to the economic well-being of those nations that would endeavor to profit by military action against their neighbors or in self defense and in the attempted restoration of the previous order. In accepting the historical precedent and recognizing the economic need to achieve the necessary currency and credit resources required to support the efforts of the nation involved in military operations, the various currency instruments used during and after the Second World War by the Allies will be examined.

The first type of currency to be examined is what was known as Spearhead currency. As the name implies, it was the currency carried into the area to be occupied at the time of invasion by the invading forces. The ideal situation would obviously be to have available adequate stocks of the local currency for use by the invading forces. Usually this was not the case because one country just does not have another country's currency on hand in such quantities. The British took a very

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[1]Southard, Liberation, p. 13.

large, but inadequate for future use, supply of Italian lire into Sicily in July of 1943. This currency had fallen into the hands of the British in Italian Africa, but not in sufficient quantities to support their subsequent operations in Sicily. Therefore, a type of spearhead currency was used until local currencies or supplemental military currencies came available.[1]

The United States used as spearhead currency in this area regular silver certificates. In order to differentiate these spearhead silver certificates from United States currency already in the area and from United States currency possibly distributed by the retreating Germans, the seal on the certificates was printed in yellow.[2] A similar device was used in Hawaii by the United States in the days when Japanese invasion of the islands was considered a possibility. Regular United States currency was overprinted with the word "Hawaii" as a protection against its later use by the Japanese against the United States. This currency was subsequently used for occupation purposes in certain areas of the Pacific Theatre in much the same fashion as the yellow seal certificates were used in the Mediterranean Theatre.[3]

A second type of currency used in invaded areas is, of course, local currency then circulating in the area. This currency is recognized by the invading forces and continued in

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[1] *Ibid.*

[2] *Ibid.*, p. 14.

[3] *Ibid.*

use as legal tender. Occasionally, local currency is printed and issued by a government-in-exile for use in the contested area in anticipation of the imminent restoration of the regular government and their resumption of such responsibilities. On occasion, this currency was supplemented by the use of spearhead currencies. Due to the availability of adequate quantities of local currencies in Western Europe, spearhead currencies were not used there.[1]

A third type to be examined is military currency. This currency is ordinarily intended to supplement a local currency when it is issued, not to replace or supersede the local currency.

There were two notable exceptions to this intent, however. One exception occurred when the British Military Authority issued lire in Trepolitania to replace the Italian lire for various political and financial reasons. The other exception occurred when the Allied Military schilling was issued in Austria to replace the Reichsmark. This proved to be an interim measure pending issuance of a new national schilling by the restored government.[2]

In view of the shortage previously noted of Italian lire in the hands of the British in the Sicily operation in July of 1943, the first military currency was issued by the Allies at that time. The notes were conservative in style and of a

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[1] Ibid., p. 15.

[2] Ibid.

convenient size by present-day standards. They were lithographed by the photo offset process in the United States to be issued in Sicily.

Unfortunately, the style and size of these notes were such that their reproduction presented no challenge to local counterfeiters, who appear to be quite numerous in that part of Italy.[1]

Two other military currencies were used by the Allies in Europe. They were the Allied Military mark in Germany and the Allied Military schilling in Austria, as previously noted.

Of interest is the fact that none of the Allied Military currencies used during this period contain anywhere on them a promise to pay. In fact, no responsibility of any kind is indicated on these notes. Only the authority issuing the currency is shown.

The final type to be examined is the one time use of non-military supplemental currency in France. There had been negotiations among the Allies and the French provisional government seeking to obtain acceptance and backing of this currency by that government upon its assuming its rightful position in France.[2] In the meantime, the currency was in use by Allied forces in the area.

Eventually, the French provisional government acceded to the desires of the Allies and what could have been an

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[1] Ibid.

[2] Ibid., p. 16.

embarrassing financial crisis was averted.

The reason for not using regular currency of the invading country is obvious and it is to guard against the possibility of the enemy obtaining quantities of the currency of the invader in the event of military reverses on the field of battle.

The Problem Facing the United States

It correctly can be assumed from the foregoing that the United States actually had little or no consistency or logic in its effort to achieve and maintain an effective currency control program at the time of entry of its forces into the Mediterranean and European Theatres of the Second World War. It appears that there was not established an effective decision-making process at the required level in the hierarchy of war planning, and this was compounded by the absence of centralized responsibility for currency control.[1]

A major problem to be faced in whatever currency control measures were adopted was the exchange of currency in the hands of United States personnel for remittance to the United States. That is, United States personnel were allowed the use of currency exchange facilities, usually Army Finance Offices and the mails, to remit funds to the United States. Therefore, the

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[1]Walter Rundel, Jr., Black Market Money (Louisiana State University Press, 1964), p. 31.

United States had a vital interest in assuring itself that only an amount of currency that it had assumed responsibility for would be exchanged and remitted to the United States. The ideal situation was that there would not be exchanged more foreign currency into United States dollar credits, and eventually currency, than United States personnel in the area had received as pay and allowances.

While the War Department apparently chose not to concern itself with the consequences of an ineffective currency control policy, other governmental agencies were concerned and did anticipate the seriousness of the problem.[1]

For one, the Treasury Department inquired of the Army as to the direction of its fiscal plans for occupied areas in the course of the war and in the postwar recovery period. The Army's reply was that there would be little or no problem and that no stringent currency controls would be required. Further, the Army expressed the opinion that its military personnel savings program would provide the necessary relief of any occupation currency control requirements.[2]

One wonders at the naivete of this type of thinking on the part of the Army at this time, especially in light of the given situation of the possibility for profit via the inevitable

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[1] Ibid.

[2] Ibid., p. 32, citing Minutes of Meeting in the office of John J. McCloy, Assistant Secretary of War, April 8, 1944, World War II Records Division.

black market, of the area of United States' operations in Europe, and of the basic trait of Yankee ingenuity for making a fast dollar when provided the opportunity. One further wonders along these same lines today, twenty odd years later, relevant to operations on the opposite side of the world. Only now the earning rate is ten per cent for savings so deposited as compared to four per cent in the Second World War.

The Army further stated to inquiries as to the nature of its intended course of action in the field of currency control that the matter was under study, especially the matter of remittance procedures, and that the requirement to review control measures in effect possibly existed. Whatever the outcome of such studies, their results are yet to be realized in corrective action taken.[1]

Actually, it appears that the War Department's studies of currency control during the war never did provide a workable solution to those problems during that time. By concentrating its efforts on investigating the various instances and types of violations of remittance regulations, the War Department never brought itself to the core problem of protecting the United States Government and its taxpayers from those persons who could and would remit these ill-gotten gains to the United States for conversion into dollars through official channels. Short of facing the actual basic problem, the investigation and strict regulation of all currency transmission channels would have

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[1] *Ibid.*, p. 32.

lessened the problem somewhat.[1]

Also of importance in this matter was the attitude and practice of those who were in a position to exercise a measure of control in the amount of currency transmitted to the United States. At this time a certification of authorization for transmitting funds had to be signed by an officer of the rank of major or above. Not only was this regulation demoralizing to the troops; it overlooked the possibility that certain officer ranks could be involved in questionable currency practices. The result in field operation practice was that all amounts of currency submitted for authorization for transmittal were duly certified by appropriate unit commanders as just and proper. In most instances the size of the largest amounts were also certified to be gambling winnings and therefore legitimately eligible for transmission to the United States. As an example of the magnitude of the problem to be faced, the transmission of the largest single personal transfer of funds up to December, 1945, was in the amount of $23,000.[2]

A Side Light

There occurred during this time an event of the most extreme magnitude in the effort to control currency operations, an event that could have been interpreted as a signal of the events to follow over the years in the relations between the soon

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[1] Ibid.

[2] Ibid., p. 38, citing "Report of Operations," Berlin District, January-March, 1946, p. 7, Federal Records Center.

to be victorious Allies. While the long range effects may not have been as serious as the effects of other events that would follow over the years, they were of importance in the area of finance. This event was the making available to the Russians a set of the engraving plates with which the Allies intended to print Allied Military marks for use as occupation currency in Germany against the time that the Allies would, in fact, occupy that country.

There was a combined United States-United Kingdom decision early in 1944 that an occupation currency patterned after the German mark would be printed and issued by all of the Allies for use in Germany. These marks would be used by the combined military forces for expenditures within Germany by the occupation forces.[1] The agreed purpose of this plan to use the same Allied Military mark in all zones of occupied Germany was to enable that country, through the early establishment of a stabilized economy, to rebound as an economic unit. In this manner, Germany could contribute to the restoration of economic equilibrium in a democratized postwar Europe.[2]

The world has had ample demonstration of the true desires and intentions of Russians as far as a united Germany and a democratized Europe are concerned in the past twenty odd years.

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[1]U. S., Congress, Senate, Occupation Currency Transactions, Hearings, p. 15.

[2]Rundel, Black Market Money, p. 41.

However, at the time the possibility of ensuing events happening as they have, rather than as the Western Allies envisioned post-war conditions would be, was not widely considered at that time. Indeed, had the Western Allies excluded the Russians from their currency plans and thereby encouraged them to use an occupation currency of their own issue, this would have constituted an agreement in advance to create exactly what was not at all wanted but, unfortunately, came to be.[1] At no time did the Allies agree to an arrangement whereby Germany would be permanently divided.

The Allied Military marks to be used in Germany were to be printed in the United States by the Treasury Department, and in January of 1944, the design work was begun. At no time was there the slightest official suspicion that the Russians were going to prove uncooperative. In fact, the assumption by the United States and the United Kingdom was that all who were to have access to the use and distribution of the marks would be ethical in their use of the marks.[2]

In the next month, the Russians first began their efforts to obtain a set of the engraving plates with which to print their own supply of marks for use by their troops.[3] After several months of negotiations, the Russian government sent a note to the United States on April 8, 1944, stating that if a set

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[1] U. S., Congress, Senate, Occupation Currency Transactions, Hearings, p. 15.

[2] Rundel, Black Market Money, p. 42.

[3] Ibid.

of engraving plates were not made available to them, they would be compelled to take steps on their own to provide themselves with occupation currency to be used in Germany.

The British government supported the Russians in their demand for a set of the engraving plates, which, in hindsight, seems curious in view of the widely held opinion that the British often saw the Russians in their true light where the United States did not. However, in response to the repeated demands of the Russians and in view of the support of the British, the plates were made available to them on April 18, 1944, based on a decision made by the State and Treasury Departments.[1]

On that date the plates, inks and paper necessary to print Allied Military marks were delivered to Washington National Airport by the Bureau of Printing and Engraving for further transfer to the Russians. Five Russian airplanes were loaded with this material and departed Washington for Moscow by way of Siberia.[2]

It is interesting to note, at this point, the names of some of the individuals who were instrumental in bringing about the transfer to the Russians of the engraving plates for the Allied Military marks. Dr. Harry Dexter White, Assistant to the Secretary of the Treasury, was one of the negotiators of that department and, as such, advised the then Secretary, Henry Morganthau, Jr. He was subsequently accused by Whittaker

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[1]U. S., Congress, Senate, Occupation Currency Transactions, Hearings, pp. 16-17.

[2]Rundel, Black Market Money, p. 43, citing memo from Secretary Morganthau to the Ambassador of the USSR, August 14, 1944, World War II Records Division.

Chambers of knowingly aiding the Russian Communists and some of his writing for them was found among the famous "Pumpkin Papers." General George C. Marshall, speaking for the Combined Chiefs of Staff, agreed to the transfer with the provision that the action was not to interfere with any existing plans of General Eisenhower. The only opposition, on record, came from the Director of the Bureau of Engraving and Printing, A. W. Hall, and his opposition was based on the absence of any exact accounting procedures to be used by the Russians in the use of the marks to be printed with the plates.[1]

A little over a year later, it became apparent that the Russians were flooding Germany with marks that they had printed from the plates given them by the United States. Russian finance officers were distributing marks freely and with no record of accountability. It was said that the Russian soldiers were issued Allied Military marks with their rations, and on occasion made gifts of them to their American counterparts.[2]

The consequences of this situation where money was almost free were staggering to consider. In July of 1945, the garrison in the United States' zone of Berlin was paid $1,000,000. Three times that amount was remitted to the United States, the difference representing Allied Military marks and other currency which had been acquired by American troops and subsequently

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[1] Ibid., pp. 42-43.

[2] Ibid., p. 43.

converted to dollars.[1] This conversion was a drain on the United States Treasury to the extent that the money converted to dollars exceeded the amount of money appropriated by Congress for military pay and allowances. It was a cost to the American taxpayer.

In describing the results of the major attempt at currency control in Europe, and especially in Germany, to this point, it is well to recall the social and economic climate in much of Europe at this time. There were various reasons accounting for the breakdown in social order and the rise in black market operations throughout Europe. The essential causes were the collapse of morale on the part of the local populations and the tempting possibilities of the large and easy profits to be made, as well as wartime shortages and the disruption of normal trade. Further, the Americans had a surplus of all types of supplies and quantities of dollars which could be used to obtain huge profits. The exchange tended to involve the usual cigarettes, coffee, sugar, chocolate, dollars and some Army property on the part of the Americans for jewelry, cameras, art objects and local currency on the part of the Europeans.[2]

There are two principal reasons for the failure of the Army's currency control in Europe. First, a realistic and

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[1]Oliver J. Frederiksen, The American Military Occupation of Germany 1945-1953, Historical Division, Headquarters, United States Army, Europe, 1953 (Dormstadt, Germany: The Stars and Stripes, 1953), p. 115.

[2]Ibid., p. 29.

consistent currency control program was not planned prior to beginning European operations, and, second, once involved in actual operations on the continent it was unable to develop a workable program.[1]

Currency Control in Asia

The currency control situation in Asia was considerably different from that which developed in Europe as the war progressed toward final settlement. While most of the problems in Europe resulted from the inadequacies of policies conceived during the war and not improved during the beginning of the occupation, this was not the case in Asia.

As the war in Asia drew to a conclusion, it came to be that the United States would be the primary, and ultimately the only, Allied nation to occupy Japan. This would seem to present an ideal opportunity for the Army to redeem itself in its administration of currency control in Japan. The occupation of Japan began a few months after the end of hostilities in Europe and the wild currency gyrations that had beset that area. But, even with the recent events in Europe, the Army had not capitalized on its experiences and practically duplicated its errors in Japan.[2]

The Army had prepared itself for the unknowns in the occupation of the Japanese home islands of Honshu, Hokkaido,

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[1] _Ibid._, p. 60.

[2] _Ibid._, p. 62.

Shikoku and Kyushu by obtaining a supplemental type currency, type "B" military yen. There was found to be a sufficient quantity of Imperial yen available, however, thus avoiding the currency shortages experienced in Italy and Africa. The military yen was circulated on an equal basis, as required, with the existing supply of Imperial yen.[1]

Currency control under these conditions only became a problem as the need to redeploy troops arose. An initial guide-line was adopted whereby each person was allowed to convert $150 from yen into dollars as he was to depart the area. In some instances, of course, there were those who had funds in excess of the stipulated allowance. To the extent that they could prove the legitimacy of ownership they were allowed to convert. The exchange was usually on a cash basis, but where dollars were in short supply, postal money orders, savings deposits and personal transfer accounts were legally used.[2]

The certification by personnel officers of the legitimacy of funds submitted for conversion into dollar credits was the foundation on which the Pacific command built its currency control program for Japan, Korea and Okinawa. This system was thought to be necessary by the command in view of the fact that Imperial yen was circulating in the military

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[1]Ibid., p. 62, citing Circular 67, General Headquarters, U. S. Army Forces in the Pacific, September 10, 1945, World War II Records Division.

[2]Ibid., p. 63, citing Commander-in-Chief, Army Forces in the Pacific to Commander-in-Chief, Army Forces in the Pacific ADVANCE, October 27, 1945 (Radio Message), Federal Records Center.

establishment on an equal basis with type "B" yen in order to prevent large amounts of black market yen from being converted into dollar credits.[1] However, the personnel officer's certification was the weak link in the control system.

The key to currency control in Japan was to be the certification system whereby local personnel officers would attest to the propriety of each submission of funds for remittance to the United States. It was assumed by the Pacific Command of the Army that this arrangement would prevent yen holdings resulting from illegal black market operations from entering the system and being converted into dollars or dollar credits. Questionable submissions were forwarded to the next higher level in the chain of command for a decision. This, along with the degree of discretion allowed the individual personnel officers, comprised the fatal flaw in the currency control program in Japan.[2] The events of the European experience were soon to be repeated.

Late in 1945, there had developed in Japan a black market of immense proportions in American goods. This eventually defeated the existing currency control program. The impetus to the development of the black market in Japan was the unfavorable official rate of exchange between the yen and the dollar which overvalued the yen. This fact stimulated the American serviceman to seek redress in any way available to him, usually the

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[1] Ibid., p. 63.

[2] Ibid., pp. 63-64, citing Commander-in-Chief, Army Forces in the Pacific to Commanding General, Sixth Army, et al., October 18, 1945 (Radio Message), 180153Z, Federal Records Center.

selling, illegally, of his equipment and of merchandise acquired at reasonable prices in post exchanges and resalable in the black market at considerable profit. Also, at that time, yen could legally be spent in the post exchanges which provided an enterprising serviceman a very real opportunity to generate huge personal profits. In this same year the Pacific Command converted yen to dollars for remittance to the United States and ended the year with an overdraft amounting to about $75,000,000 in yen.[1]

When the conversion of all foreign currencies stopped late in 1946, the United States had $380,000,000 in excess holdings of such currency. Of this amount, $250,000,000 was in marks, $75,000,000 was in yen, and the remainder in various other currencies.[2]

There were no major currency control problems in other areas of Asia because Americans had usually been paid in dollars. This is not to say that black markets did not exist, but the problem of currency control did not arise in those areas.

Currency Control Books

No attempt at wartime currency control by the Allies and the United States had worked very well during the Second World War. Of course, the business of currency control was somewhat

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[1] *Ibid.*, pp. 64-66, citing Major General Richards to the Secretary of War, April 22, 1947, World War II Records Division.

[2] U. S., Congress, Senate, *Occupation Currency Transactions, Hearings*, p. 3.

different from the point of view of the United States than from that of the other Allied powers. The prime consideration concerned the actual presence of the dollar in the various local economies. And, this restriction placed on the United States by other countries was for a very good reason. Most of the countries of Europe had been touched by the war. Certainly the effects and dislocations of the war were felt all over the continent and were manifest in the weak economies in and around that area. For the most part, the actual presence of the dollar in the hands of American troops and in the hands of the local populations was not welcome. The dollar was probably the strongest monetary unit in the world and its presence tended to disrupt those economies in which it appeared.

The United States dollar was, of course, the universal monetary unit; it could be spent anywhere for anything and was regarded almost the same as gold. While other currencies would circulate with the dollar at the same time, the dollar would according to Gresham's Law, be hoarded while the intrinsically cheaper currency circulated. Thus, large quantities of dollars would be stashed away all over Europe to be brought forward by many people for redemption by the United States in later times. Who would venture to predict when or under what conditions this might happen? Who could predict the consequences of this action on the economic stability of the United States at that unknown time? Therefore, in most all instances the dollar was not the best currency to use in the Second World War.

On the other hand, allowing the unlimited conversion by American servicemen of any and all wartime currencies into dollars for transmission to the United States was not a tolerable condition either. No matter how the American serviceman came to possess the currency, legally or illegally, the unlimited conversion into dollars was a bill to be paid ultimately by the American taxpayer. There had to be a way to counteract this situation, and the certification procedures by senior officers and personnel officers clearly had not worked.

As a result of much study of the currency problem, the War Department, through the Office of the Fiscal Director, recommended that a currency control method using currency control books be considered with a view toward its adoption and use. This was in the spring of 1945, and by mid-summer their use was planned for implementation before the end of that summer.

In practice, the currency control books would work in the following way. Each of the over three million American servicemen overseas would be issued a currency control book to be kept by him at all times in much the same manner as his military identification and shot record are kept individually today. As each serviceman in an overseas area drew pay and allowances due him, that amount was to be entered in his book by the paying office. As foreign local currency was used by the serviceman, deductions would be entered in his book. The principle in issuing the currency control book was to limit the maximum amount of money available to the individual serviceman for conversion

into dollars and subsequent transmission to the United States of that amount drawn by him in pay and allowances. It would also serve to show the exact amount of money that an individual should have in his possession at any given time. Currency control books were finally made effective as of November 10, 1945 in Europe, and on February 10, 1946 in the Mediterranean theater.

That the use of currency control books was doomed to moral and administrative failure should have been foreseen by those responsible for the implementation of their use. But, it is difficult to evaluate foresight from a position of hindsight.

The books were of very simple format which made easy the efforts of those who would falsify entries or counterfeit the books. Also, the currency control books were not serially numbered as are such documents as identification cards today. This lack of accounting procedures enabled some servicemen to have several books at the same time. While the legitimacy of the previous certification procedure by unit commanders and personnel officers had been made casually and had doomed that system, the same attitude was found to exist among those who were responsible for making currency control book entries.

And, as always in the military services, there are those who for one reason or another can always find compelling reasons for their exclusion from the requirements of any rule or regulation. In this case, and at that time in 1945, there were considerable force redeployments in process and those so involved were excluded from the provisions of the currency control book regulations. The results of this are obvious.

However, the most decisive blow to any possible success of the currency control book effort was dealt it by the theatre and operating commanders. For some unknown reason, probably based on indecision, the impending implementation of the use of currency control books was widely announced some two months in advance. The results of this mistake can be correctly surmised. The Berlin district made disbursements in the amount of $2,570,921.32 in October, 1945. In the same month it collected through finance offices, Army post offices, exchanges and quartermaster sales stores an amount of $8,226,461.73 in Allied marks.

The requirement to use currency control books in the European theatre was made effective finally on November 10, 1945, and in the Mediterranean theatre the following February.

This action did not solve the problem of the conversion of black market profits into dollar credits for transmission to the United States. In February, 1946, American military personnel in the European theatre drew $25,218,344.16 in cash and in the same month returned, through official channels, $35,183,221.20 in Allied marks for conversion and remittance. In March of the same year the amounts were $21,826,216 and $36,482,480. Obviously the problem had not been solved through the use of currency control books and the overriding laxness in enforcement of currency control measures insured failure of the program.

Late in 1946, various levels of command in the European theatre began to enforce the more stringent aspects of currency control. Inspections were made on an unannounced basis and

excess or illegal funds were confiscated. This action gave the impression that currency control would continue permanently along the same lines as in the past and drew attention away from the new currency control effort, the introduction and conversion to a scrip system.[1]

And so, the introduction and use of the Military Payment Certificate, as known today, finally came about. The Army was designated as the Executive Agent to supervise the issuance of and regulations pertaining to the Military Payment Certificates.[2]

Table 1 shows the places and periods of use of Military Payment Certificates since their introduction on September 16, 1946. Table 2 shows the series of Military Payment Certificates used to date.

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[1] *Ibid.*, pp. 69-79.

[2] Personal interview with E. L. Jordan, Head, Disbursing Systems Branch, Office of the Comptroller of the Navy, Washington, D. C., October, 1968.

TABLE 1

PLACES AND PERIODS OF USE OF MILITARY PAYMENT CERTIFICATES

Country	Period
England	September 16, 1946-1960
Belgium	September 16, 1946-1960
Austria	September 16, 1946-1956
Greece	September 16, 1946-1955
Iceland	September 16, 1946-1960
Yugoslavia	September 16, 1946-1955
Free Territory of Trieste	September 16, 1946-1955
Hungary	September 16, 1946-1955
Japan	September 29, 1946-still in use
Korea	September 29, 1946-still in use
Libya	September 16, 1946-still in use
Morocco	September 16, 1946-1961
Northern Ireland	September 20, 1957-1960
Philippines	September 29, 1946-1963
Scotland (except Prestwick Int. Airport)	September 16, 1946-1960
Ryukyu Islands	September 29, 1946-1958
Cyprus	January 14, 1959-1967 (June)
France	September 16, 1946-1958
Germany	September 16, 1946-1958
Italy	September 16, 1946-1958
Viet Nam	August 31, 1965-still in use

Source: Personal interview with G. F. Nichols, Deputy Director for Banking and Finance, Office of the Secretary of Defense, Washington, D. C., October, 1968.

TABLE 2

MILITARY PAYMENT CERTIFICATE SERIES

Series Number	Period
461[a]	September 1, 1946-March 10, 1947
471[a]	March 10, 1947-March 22, 1947
472	March 22, 1948-June 20, 1951
481	June 20, 1951-May 25, 1954
521	May 25, 1954-May 27, 1958
541	May 27, 1958-May 26, 1961
591	May 26, 1961-January 6, 1964
611[b]	January 6, 1964-
641	August 30, 1965-October 21, 1968
661[b]	October 21, 1968-

Source: Personal interview with G. F. Nichols, Deputy Director for Banking and Finance, Office of the Secretary of Defense, Washington, D. C., October, 1968.

[a]The digits 461 indicate the first series used in 1946; 471 indicate the first series used in 1947. After 1947, this distinction was no longer used.

[b]Two series are currently in use.

CHAPTER III

AN ASSESSMENT OF THE EFFECTIVENESS OF MILITARY PAYMENT CERTIFICATES

The Way to Currency Control

After nearly five years experience in various attempts to achieve an acceptable degree of currency control within the Armed Services, the use of the device of scrip, the Military Payment Certificate, was finally decided upon. It was brought about by the repeated insistence of the Treasury Department rather than by the War Department, an unfortunate fact.

Early in 1946, Fred M. Vinson, Secretary of the Treasury, proposed to the War Department that the use of scrip be adopted in combination with various local currencies throughout the military establishment. The proposal went so far as to disregard the legal entitlement of the serviceman to payment in dollar credits, to allow him to obtain only enough currency to pay for his immediate personal needs on the local economy, and to absolutely prohibit reconversion into dollar credits.

Further, the Secretary expressed the annoyance of his Department with the War Department for its apparent total disregard of the currency control problem up until then by the following:

> For many months the Treasury Department . . . has been attempting with the greatest seriousness to induce the War Department to adopt measures which would prevent the conversion into dollars of foreign currencies acquired illegally or through unauthorized channels. These attempts by the Treasury Department have not met with success. . . . There has been no serious attempt by the War Department to investigate cases of Army personnel who acquire personal fortunes during the course of the military operations. . . . We are not even currently informed of the situation at any given time since the War Department has not or cannot obtain through its ordinary procedures significant statistics as to the amounts involved in its foreign exchange operations.
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> This situation is considered to be one of greatest gravity. The inability of the United States Army to prevent the conversion into dollars of foreign currencies acquired by personnel through unauthorized channels, and the unwillingness of the War Department to impose effective controls which the Treasury has in the past suggested, has resulted in a serious worsening of the situation and the Treasury now feels it necessary to propose a more drastic measure, which would render unnecessary and thus eliminate the Army's conversion system.[1]

The War Department was quick to react to this criticism and began to take corrective action. However, the War Department chose not to mention the joint circulation and interchangeability of scrip and local currency envisioned by the Treasury Department in its implementing correspondence. Instead, the War Department emphasized the non-acceptance of scrip from other than authorized personnel and the non-reconversion of local currencies into dollar credits for transmission to the United States. In this manner the Army would have the long sought check device to insure

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[1]Rundel, Black Market Money, p. 81, quoting Fred M. Vinson, Secretary of the Treasury, to the Secretary of War, February 10, 1946, World War II Records Division.

that only money disbursed by the Army would be collected through the various facilities such as finance offices, post offices and exchanges by the Army. An additional feature of the use of scrip was that it was intended to be of little value to members of the local population and would help to reduce black market operations. This unique and desirable feature would be brought about by announcing that the scrip would be issued by series and that the existing series could be recalled at any time and a new series issued. All United States personnel would be allowed conversion privileges without question up to a specified sum. Amounts submitted for conversion in excess of that amount would be investigated. The single most desirable feature was that there would be no more $380,000,000 excesses requiring explanations by the Army.[1]

The American efforts toward currency control had come about as a result of its having incurred rather embarrassing deficits. The deficits had been caused by the lack of a well-planned currency control program with the necessary centralized authority to enforce the program.

An Aside

As is so often the case in the comparison of the day to day practices of the United States with those of its former enemies, the Germans and the Japanese, their practices look more

[1] U. S., Congress, Senate, Occupation Currency Transactions, Hearings, p. 3.

efficient but were harshly imposed on subjugated nations, while the United States has usually achieved results without the harshness. So it was with the use of scrip in the German and Japanese currency control programs.

The Germans issued the same non-convertible type currency to all its occupation troops. The currency circulated with the local currency at a rate of exchange prescribed by the Germans and was legal tender in only that particular occupied country in which it was issued. The currency had to be spent in the country of issue, or its value was forfeited upon transfer by the individual soldier. This currency was known as Reichskreditkassenschine, which meant Reich credit treasury notes. Another device used was a type of currency that was used when large numbers of troops were to be transferred to another country. The Reichskreditkassenschine held by the troops was converted into another type of military currency, the Verrechnungsschine. This word has no literal translation, but means roughly credit notes or payment orders. This currency was not legal in Germany or in any occupied country, but was converted into the local currency or Reichskreditkassenschine upon arrival in another country. Aside from maintaining the desired degree of currency control, the Germans, by using these devices, were able to transfer to the occupied country the cost of the German occupation of that country.[1]

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[1] Ibid., p. 82, citing Hans J. Dernburg, "Currency Techniques in Military Operations," April 11, 1945, Federal Records Center; Frank A. Southard, Jr. to Fiscal Director, May 31, 1945, (Memo), G-5/123.9, Federal Records Center.

The Japanese used an equally effective means to gain currency control with a military scrip system. They issued in the various countries and areas which were occupied by their forces a military scrip which was denominated in the local monetary unit and backed by the Bank of Japan. This scrip circulated interchangeably with existing local currency. When the Japanese authorities considered the occupation to have stabilized, all circulating currency was called in and exchanged for a new military scrip denominated in yen. In this manner all occupied areas were incorporated into the yen block with all currency clearing being done in Tokyo.[1]

Overall Evaluation

At this point it is interesting to consider and to wonder at the success that the United States might have had in maintaining currency control had it adopted a program similar to either of the foregoing. With the great quantity of desirable items that the Americans deem necessities and take with them everywhere, there no doubt would have been a black market problem wherever they went. This would, it seems, have had an effect on the success of any program used. On the other hand, would the casual approach actually used by the United States have worked toward the desired goal of currency control in the absence of such seemingly unending quantities of material wealth which was so available to those who would engage in black market

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[1] Ibid., p. 83, citing Henry Simon Block and Bert F. Hoselitz, Economics of Military Occupation (Chicago, 1944), p. 138.

activities? Would the German and the Japanese programs have been so successful if such material wealth had been available to would-be black market operators? Available evidence seems to indicate that the results achieved by the Allies and the United States were indeed successful, and in the final analysis, more equitable in their currency control efforts.

While admitting to certain criticisms, it can be said that Allied currency policy in Europe was in some respects successful. First, this policy met the major needs of the Allies in every area that large scale operations were conducted by the making available of the required amounts of currency and the making of satisfactory arrangements with local financial and government authorities conducive to the successful prosecution of the war effort. Second, this policy was further able to meet the currency needs of each and every country and locality where normal authority had ceased to function by providing the required currency supplies. Third, wherever the use of military currencies was resorted to, the procedure was justified, based on historical precedent. Fourth, no economy subject to Allied or United States control was disrupted by the use of such military currency. Fifth, and finally, whatever financial or currency arrangements were used by the Allies were the result of agreement reached through negotiations with the local or affected government. Criticisms of the policy would include those directed toward the use of Allied Military marks in Germany and the use of the supplemental franc in France.[1]

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[1]Southard, Liberation, pp. 55-59.

The situation in Japan was more conducive to the successful use of scrip. The United States was the major occupying power in Japan. Type "B" yen, as previously described, was used until July 19, 1946. At that time type "A" yen was issued. It would be the only currency to circulate within official channels and would be the only currency used officially. At conversion time, finance officers would issue type "A" yen for Imperial yen, but would not later reconvert indigenous yen back into dollar credits or type "A" yen. The new type "A" yen was an immediate success in stopping the conversion of black market profits into dollar credits. The Army was the only source of the type "A" yen and was collecting only that amount issued through official channels, thereby practically precluding the occurrence of an overdraft unfavorable to the United States.[1]

Formal Beginning

Based on the success with military scrip as shown by the use of type "A" yen, the feasibility of the world-wide use of scrip was demonstrated. Accordingly, conversion dates, better known as C-days, were set by the War Department for all theatres. The date for the European and the Mediterranean theatres was scheduled to occur between September 10 and September 20, 1946,

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[1]Rundel, Black Market Money, pp. 85-86, citing "Administrative History, Office of the Fiscal Director," General Headquarters, U. S. Army Forces in the Pacific, April 6, 1945 to December 31, 1946.

and the date for the Pacific theatre between September 20 and September 30, 1946.

Production of military payment certificates was approved in June, 1946, and the Bureau of Engraving and Printing began the designing and printing of the new currency. The certificates to be issued were all paper bills and were in the following denominations: $10.00, $5.00, $1.00, $.50, $.25, $.10 and $.05. These certificates were to have full dollar backing and therefore had to be of the same high quality as United States bills in order to make them equally as difficult to counterfeit. Toward this end, several unique features were incorporated in their manufacture such as colored disks, or spots, appear in the paper used, special inks were used and special type serial numbers which were difficult to reproduce were used.[1] The illustrations appearing on the various certificates are all allegorical in nature, they do not have any current significance and they do not represent any real living or dead persons. Each likeness shown on these certificates is an imaginary creation produced by the artists employed by the Bureau of Engraving and Printing, and no live models are used in their design and creation. Extreme care is exercised in this entire process to insure that the various series of Military Payment Certificates are distinguishable, one from another, and most importantly from United States paper currency.[2]

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[1] *Ibid.*, p. 87.

[2] Personal interview with R. Shepherd, Fiscal Officer, Finance Services Office, Comptroller of the Army, Office of the Chief of Finance and Accounting, Washington, D. C., February, 1969.

In this fashion the Military Payment Certificate came into everyday use in September, 1946, and has continued in use ever since.

The Military Payment Certificate system, then, could be called a system of "canteen money" and is similar to one used by the Germans in the Balkans during the Second World War. It has been said that this type of currency represents the belated recognition of the fact that in an invasion or occupation, there are three separate foreign exchange areas involved. The areas are: the invaded country, the home country, and the military community. Transactions between the three areas must be controlled effectively if the foreign exchange reserves of any one of them are not to be unnecessarily depleted.

The introduction of the Military Payment Certificate never stopped the participation of United States personnel in the various local black markets, but it did increase the difficulty with which profits in the black markets were converted into dollars. Therefore, the main accomplishment of the Military Payment Certificate reform was that essentially it stopped the increase in troop pay overdraft.[1]

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[1]Petrov, Money and Conquest, pp. 215-16.

CHAPTER IV

THE MILITARY PAYMENT CERTIFICATE IN THE WORLD TODAY

Does it Meet the Need Today?

Today the Military Payment Certificate is used in four areas--Lybia, Japan, South Korea, and South Viet Nam.

The use of the Military Payment Certificate in Lybia is based more on that country's desire to avoid the unrestricted circulation of the United States dollar in its economy rather than any need based on desires of the United States.[1] As the local currency becomes more firm in relation to other world currencies, perhaps the Lybian government will relax its stand and the Military Payment Certificate can be withdrawn from use there.

Use of Military Payment Certificates in Japan appear to be from force of habit more than from any requirement to protect that economy from unrestricted circulation of the dollar. Indeed, only United States military personnel and certain other authorized personnel in Japan are required to use the Military

[1]Personal interview with G. F. Nichols, Deputy Director for Banking and Finance, Office of the Secretary of Defense, Washington, D. C., February, 1969.

Payment Certificate. The official exchange rate imposed on these personnel is currently 360 yen to the dollar. American tourists visiting Japan, in ever increasing numbers, can easily and legally frequently obtain a more favorable rate in their currency transactions. The use of the Military Payment Certificate could probably be stopped in Japan at any time with no serious consequences.[1]

The continued use of the Military Payment Certificate in South Korea is primarily dependent upon that country's economy emerging as one able to stand alone in the world community of nations without such stimulants as continued aid from the United States. In view of world tensions, the free circulation of dollars so close to an announced and demonstrated opponent of the United States, North Korea, is to be avoided. Understandably, this action does not preclude the acquisition of dollars by the North Korean government, but it does not aid them in their efforts either. Additionally, it aids in the control of black market operations.[2]

The situation in South Viet Nam seems to be a sum of all the reasons advanced in favor of the continued use of the Military Payment Certificate. The Government of South Viet Nam requests the use of the Military Payment Certificates in that it is desirable to preclude the enemy's obtaining United States currency and their use does serve to combat, in some measure,

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[1] Ibid.

[2] Ibid.

the widespread black market operations.[1]

At 7:00 A. M. on October 21, 1968, the Military Payment Certificate series used in South Viet Nam was changed from series 641 to series 661. Speculators in the former series suffered losses as a result of the conversion to the latter series. While losses were thus encountered, those same speculators feel that the next conversion will, of necessity, be some time in the distant future, thereby insuring them of considerable time to make up both their losses suffered as a result of the conversion and to make even greater profits in the guaranteed future operating period.[2]

There were a number of stories circulating in Saigon during this time concerning the effects of the conversion and those who suddenly found themselves the holders of worthless paper. This event, causing the loss of fortunes, was regarded by some as a sort of Viet Namese Black Friday, and there were instances of suicides. American officials estimated that of the $49,000,000 of scrip circulating in Viet Nam, $2,000,000 to $40,000,000 was illegally in the hands of Viet Namese citizens.[3]

While it is illegal for authorized personnel to spend scrip in the local economy in Viet Nam and it is illegal for the

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[1] Ibid.

[2] "South Viet Nam, C-Day," Time Magazine, November 1, 1968, p. 97A.

[3] Gene Roberts, "Money-Changers in Saigon Hit Hard," The New York Times, October 22, 1968, p. 8.

Viet Namese to have scrip in their possession, it nevertheless is a profitable business. Viet Namese who come into possession of scrip sell the scrip for a five per cent profit to the illegal money changers. The money changers then sell the scrip back to Americans at a rate thirty-five per cent below face value for United States dollars. They then sell the dollars to other Viet Namese at a rate of more than two hundred piasters to the dollar. The legal rate is one hundred eighteen to the dollar, thereby giving a tidy profit to the seller. The dollars received by the Viet Namese are subsequently deposited in foreign banks as a hedge against an unfavorable peace settlement which may affect the value of the postwar piaster. This illegal money changing activity has undesirable effects on both the South Viet Namese and American economies.[1]

In view of the foregoing, the claim can be made that the Military Payment Certificate is the vehicle with which to achieve the desired degree of currency control. Its use is effective in preventing the repetition of the overdrafts which occurred in the Second World War and which were such a discomfort to the Army and the War Department. This is a substantial benefit and is well worth the average cost of conversion to a new issue of Military Payment Certificate of about $800,000.[2]

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[1] Ibid.

[2] Personal interview with G. F. Nichols, Deputy Director for Banking and Finance, Office of the Secretary of Defense, Washington, D. C., February, 1969.

An interesting aspect to the use of Military Payment Certificates is that they, in effect, generate a slight amount of profit. This comes about by the fact that each Military Payment Certificate is backed by an equal dollar amount. As the Military Payment Certificates are lost or destroyed while in use, there can be no claim against that quantity of backing dollars, and, hence, a profit to the Army, the managing service, for the use of Military Payment Certificates. Also, those Military Payment Certificates which ultimately end up in the hands of unauthorized holders such as black market operators result in a profit upon cancellation of a series of Military Payment Certificates. Over the years since 1946, this has created a profit that amounts to about $800,000. In fact, some question has been raised as to the final disposition of this so-called profit. One use would be to defray the cost of the Military Payment Certificate program rather than through the use of tax funds.[1]

Should the Use be Changed?

The usefulness of the Military Payment Certificate might well be limited, in the future, to combat areas such as South Viet Nam. The international monetary situation of today is vastly changed from what it was a little over twenty-five years ago. There are numerous strong monetary units that compete freely with the dollar in desirability the world over. There is widespread talk of the need to overhaul the world monetary system. And, in view of these possibilities it would appear

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[1] *Ibid.*

that the major role of the Military Payment Certificate in the future is that of a black market control device in future combat zones.

Although the use of the Military Payment Certificate has proven successful in many respects, it is the present policy of the Department of Defense to reduce this use as the opportunity to do so arises. Contrary to the foregoing, an additional possible use of the Military Payment Certificate would seem to be its use to pay forces stationed permanently in overseas areas. The advantage would be the avoidance of having to physically transport dollars from the United States to those areas for paying purposes.[1]

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[1] *Ibid.*

CHAPTER V

SUMMARY

In time of war, economic, as well as financial, chaos can be assumed as certain to occur in combat areas. To the extent that a nation at war can maintain a degree of economic stability through a viable currency control program, its ability to wage a successful wartime operation is enhanced.

The use of various currency devices as well as currency control devices in wartime has historical precedents.

Thus, in the Second World War, the precedent of currency control was a means of warfare available to all nations engaged in that conflict. The Allies used a variety of currency control devices during that war with varying degrees of success, always the prime purpose being to ensure the availability of the currency and credit required by the invading forces to support themselves. In all cases it is most desirable to obtain ready access to the treasury or the central bank of the country involved and to obtain through agreement with allies, or through force in occupied areas, the desired currency and credit resources required for that support.

The experience of the Allied Forces would prevent their ready access to the sources of currency and credit in many areas, and they would have to develop other means toward the desired end of obtaining those resources.

The obvious reason for not using the regular currency of the invading force in the process of liberation or occupation is to prevent currency of the invading force from falling into the hands of the enemy in the event of military reverses on the field of battle.

An important purpose of currency control is to reduce the possibility of individual profiting from illegal operations in currency exchange transactions and in the ubiquitous black market. This purpose is obtained by insuring that there be only one source of supply and only one source for redemption of a type of currency used in the area by the occupying forces. This was only accomplished after the Second World War had ended by the introduction and use of scrip in the form of the Military Payment Certificate.

Prior to this event there was a period when considerable profits were made by United States personnel in operations and transactions of questionable legality. Also, it was a time during which a wartime ally, Russia, chose to act contrary to the best interests of any but her own. This was done by the Russians' issuing Allied Military marks in unlimited quantities without backing and for their own use in robbing Germany at the ultimate expense of the American taxpayer.

Also, during this period an attempt was made to achieve a satisfactory degree of currency control through the use of currency control books that were to be issued to some three million servicemen to be used to account for funds in the hands of all servicemen and other authorized personnel. That this attempt failed further demonstrated the advantages and desirability of an efficient scrip system.

The decision to begin the use of a scrip system was brought about by severe criticism of the War Department by the Secretary of the Treasury. This criticism was based on the fact that all currency control efforts to date had but resulted in an embarrassing deficit in the amount of some $380,000,000.

That the Axis powers appear to have been more successful in their currency control efforts can be attributed to one important fact, in the opinion of the writer. That fact is the difference in the purposes of the Axis Powers and the Allied Powers. On the one hand, there was the purpose to subjugate, acquire and incorporate other nations; while on the other hand, there was the purpose of preventing the Axis' success and the restoration of order in the world. However, it appears that the consensus of opinion accepts the conduct of the Allies in their currency control efforts as equitable and just, if not totally efficient.

Production of Military Payment Certificates was approved in June, 1946, and they were placed in use in September, 1946.

These certificates have full dollar backing and are the same high quality product as regular United States currency. That these certificates are in use today in four different areas of the world attests to their success as an effective currency control device and a deterrent to black market operations, and would appear to predict their continued use for that purpose.

An unanticipated benefit accruing from the use of Military Payment Certificates has been the generation of a type of profit resulting from physical loss or destruction of Military Payment Certificates, thereby reducing eventual claim against the dollar backing of the certificates which may or may not be an actual physical quantity of dollars.

The Military Payment Certificate is now used in four countries--Lybia, Japan, South Korea and South Viet Nam. Its use in Lybia is at the request of that government, and its use in Japan is becoming more unnecessary as that country's economic power increases. The use of the Military Payment Certificate in South Korea is based on the desire of the United States to aid that economy by restricting the circulation of dollars, to control black market operations and to deny the North Korean government a source of dollars for use against the United States. The Military Payment Certificate is used in South Viet Nam for essentially the same purposes, but there black market control is of paramount importance.

CHAPTER VI

CONCLUSIONS

The purpose of this paper has been to provide a basis, through the accumulation of available pertinent information, from which the use of Military Payment Certificates can be evaluated and to determine whether the results achieved by their use were the results desired.

Toward this end, the results originally desired by the use of Military Payment Certificates must be shown. An assessment of the role of the Military Payment Certificate in today's world is logical and necessary, as well as inquiring into any continuing need of them. Finally, assuming a continuing need, should their use be increased or decreased?

In Chapter I, the discussion focused briefly on the measure of wartime currency control which was intended to maintain or restore economic order in war-torn areas, to isolate Allied military personnel from illegal markets, and to preclude the accumulation of local currencies in official accounts. The purpose of this paper was stated to be that of evaluating the use of the Military Payment Certificate in the past and future with consideration to be given to its possible elimination.

Gold flow implications in the use of Military Payment Certificates is to be considered briefly. The scope of research was stated as including available military and financial histories, personal interviews and various government publications.

In Chapter II, the historical precedents of wartime currency control were discussed at length in view of the need for such controls during the Second World War. Comparisons were made between currency control systems used by the Axis Powers and the Allied Powers, and it was shown that while the Axis Powers enjoyed certain strategic advantages in their efforts, the judgment of contemporary history would indicate that the currency control action of the Allies was just and equitable. Various currency control devices used by the Allies, including currencies and currency control books, were discussed and interpreted to indicate that the scrip device, the Military Payment Certificate, was the primary vehicle to achieve the desired results. The principal results desired by use of the Military Payment Certificate were to maintain maximum economic order in war-torn areas by isolating Allied personnel spending from local economies and to obstruct and prevent black market operations which ultimately cost the United States' taxpayers enormous sums of money.

In Chapter III, the pressure brought to bear on the War Department by the Treasury Department bringing about the implementation of the scrip system is discussed in the light of

contemporary history, which regards the use of the Military Payment Certificate a success.

In Chapter IV, the use of the Military Payment Certificate in the world today is discussed. It can be shown that the Military Payment Certificate is currently used to protect the Lybian economy from freely circulating dollars spent by American servicemen in that economy. It can be shown that perhaps the Military Payment Certificate is no longer necessary in Japan as that country's economy continues to grow and expand. It can be shown that the use of the Military Payment Certificate in South Korea is necessary to protect that economy from freely circulating dollars spent by American servicemen, to prevent black market operations, and to deny the North Koreans a source of American dollars. It can be shown that the Military Payment Certificate in South Viet Nam is necessary to isolate the American serviceman from black market operations primarily, as well as to protect that economy from freely circulating dollars and to deny the enemy access to dollars.

It appears from the evidence available that, indeed, the Military Payment Certificate does have a place among the tools of defense today. While the United States may or may not choose to attempt to maintain world-wide economic stability in times to come, and while it may or may not be desirable for the United States to attempt to limit the world-wide flow of dollars, it will probably always be to the advantage of the United States to control black market activity wherever its forces operate.

Therein lies the essential feature of the Military Payment Certificate, and based on the potency of that feature it can be concluded that the Military Payment Certificate must be retained for use, as a minimum, in current and future combat zones.

Admittedly, the Military Payment Certificate does not completely preclude black market operations, but its use does increase the hazards of that profession.

In consideration of the gold flow implications in the use of the Military Payment Certificates, it further appears that there is little or no problem in this respect and will remain thus so long as tourist spending exceeds the spending of military personnel, their dependents and other authorized personnel overseas.

A final thought concerning a benefit available from expanding the use of the Military Payment Certificate is in order. The use of Military Payment Certificates to pay authorized personnel overseas could reduce, in total, the number of actual dollars in overseas areas as a result of permanently stationed United States forces in those areas. This use appears feasible and practical.

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